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Communist China's Cotton Textile Exports;

THEIR GROWTH AND THEIR EFFECT ON WORLD MARKETS

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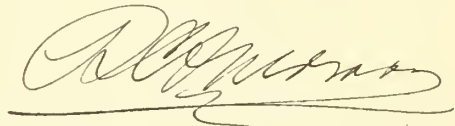
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FOREWORD

Communist China has embarked upon a trade drive to push its products into Free World markets. Among the many commodities offered at cut-rate prices, cotton textiles have become increasingly important. As a consequence, Communist China's intent and the techniques it employs to achieve foreign trade objectives have been of growing significance to the Free World.

As the major supplier of raw cotton to world markets, the United States finds itself concerned with this situation. The requirements of some of its most important raw cotton customers have been reduced by competition in third markets from Communist China's cotton textile exports. In addition, there is the possibility that Communist China could become a supplier of raw cotton to Free World markets if it suited Communist plans to do so.

Data from Communist China are extremely difficult to evaluate, for they are often conflicting and inadequate, and there is little basis for determining a "normal" point of reference. Reliable information about the country's raw cotton production, cotton yarn and fabric production, internal price structures, and other significant factors is completely lacking. While recognizing the gaps in information, the Foreign Agricultural Service has analyzed the data available to determine the trend of Communist China's trade in cotton textiles and its potential as a raw cotton exporter.

A handwritten signature in dark ink, appearing to read 'R. C. Sherman', with a horizontal line drawn underneath it.

R. C. Sherman
Director, Cotton Division

CONTENTS

	Page
Summary and conclusions.....	1
Communist China as a raw cotton producer.....	2
Communist China as a cotton textile producer:	
Functions of the cotton textile industry.....	3
Industrial facilities	4
Raw cotton consumption	6
Yarn and cloth production.....	6
Domestic consumption.....	7
Communist China as a cotton textile exporter:	
The Communist Chinese trade drive	8
Cotton textile exports:	
Volume	10
Markets	10
Trading terms.....	12
Implications.....	13
Raw cotton exports of the United States.....	14
Cotton textile exports of the United States	14
Other cotton textile exporting countries	15
Target importing countries	16

COMMUNIST CHINA'S COTTON TEXTILE EXPORTS--THEIR GROWTH AND THEIR EFFECT ON WORLD MARKETS

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SUMMARY AND CONCLUSIONS

In recent years Communist China has emerged as a growing factor in Free World trade. Immediately after the Communists rose to power in China in 1949, the country's trade was concentrated largely in Communist Bloc areas. More recently, however, there has been a concerted effort to reenter and expand trade with Free World countries. A wide range of commodities has been offered, among which cotton textiles have been one of the most important.

The objectives of this trade drive appear to be both economic and political and its results are of serious interest to many countries. The United States as the major supplier of raw cotton in world markets and also as a cotton textile exporter has a large stake in the outcome of the Communist Chinese trade offensive, while other cotton textile exporting countries and the target importing countries have also felt its impact.

Many factors have contributed to the ability of the Chinese Communists to increase their export shipments of cotton goods so sharply; among the most important are the expansion of cotton production and the cotton textile industry. Raw cotton production has tripled within the last decade, and there are indications that it will continue to expand. Communist China claimed to be the world's largest cotton producer in 1958, but Western observers believe this statement to be greatly exaggerated. The emphasis given cotton production in the "Great Leap Forward Program," however, gives some indication as to the future intentions of the Chinese Communists. The production of textile machinery at levels never before achieved has given new impetus to the expansion of the cotton textile industry, although much of the industry continues to run on old equipment.

In the planned economy of Communist China, the cotton textile industry seems to have been selected to fulfill multiple roles. One of the most important is to provide funds for the industrialization of the country, a relatively easy accomplishment in view of the indicated profitableness of the cotton textile industry in Red China. It appears, however, that unusual accounting methods are the chief cause for this appearance of profit. The cotton textile industry's main reason for existence, of course, is to provide the bulk of the clothing requirements of the rapidly growing population, presently estimated to be about 650 million people. The short supply of cotton cloth has been rationed at an annual average of less than 8 yards per person in the past 5 years. The Communists assert, however, that rations will be expanded as the production of raw cotton and cotton cloth increase.

Despite the shortage of clothing, Communist China has recently used cotton textiles as an instrument of exchange for goods of the Free World, goods which are purchased with foreign currency earned with their sale or obtained by their barter. The fulfillment of the Second Five Year Plan within the established time schedule may well depend upon obtaining raw materials and machinery from outside sources.

Exports of cotton yarn and fabrics to all destinations expanded about eightfold during the 1953-57 period, and in 1958 cotton fabric exports may have reached a total of 450 million yards. A large volume of these goods went to Southeast Asian markets, particularly Indonesia, Hong Kong, Thailand, and Malaya, at prices considerably under world prices for similar goods. Access to these and other markets has been gained primarily through the relative cheapness of the goods; in addition there have been other inducements

such as low-interest rate loans from the Communist Chinese Government and aggressive selling methods and techniques heretofore unused by the Chinese Communists. Lately, the trade drive in cotton textiles has spread into countries of Western Europe and Africa.

The effect of low-priced imports from Red China has been detrimental enough for some countries to apply antidumping measures and others to prohibit trade. In countries that have not felt compelled to take such severe restrictive measures, normal trade relationships have been disrupted and textile markets unsettled. The traditional cotton textile exporting countries of Asia have experienced shrunken demand for their products, and have in turn sought to enlarge their markets outside of their usual trading areas.

U. S. shipments of raw cotton have undoubtedly been adversely affected, for the requirements of some of its most important customers have been reduced as a result of Red China's cotton textile competition in third markets.

The United States and other Free World countries are concerned not only with the present situation, however, but with the competitive threat that expanded production of cotton and cotton textiles in Red China might represent in the future. So long as Red China continues to pursue an expansionist foreign trade policy, there is every reason to believe that its raw cotton could be traded in world markets, if the Communists choose to do so, even though their own people continue on short rations.

There is considerable doubt that Red China will be able to fulfill its production goals within the time schedules established, since there have been indications of setbacks and difficulties such as would be expected in any rapidly expanding economy. Also, the government has demonstrated a willingness to revise its goals upward or downward as the situation demanded; it may choose to revise its stated goals for raw cotton and cotton textile production. If Red China maintains present goals, if it can continue the political and economic regimentation now going on, and if it has sufficient time, it may achieve production levels that would have been thought unattainable only a few years ago. In such circumstances, Red China could become an even more important competitor on world markets.

COMMUNIST CHINA AS A RAW COTTON PRODUCER

It is practically impossible to obtain accurate production estimates of either industrial or agricultural goods in Red China, and cotton is no exception. There is agreement, however, that cotton production has expanded tremendously in the past decade. According to estimates published by the United States Department of Agriculture, cotton production prior to World War II averaged around 3.1 million bales annually. It dropped to about 1.5 million bales during the war, recovered to 2.5 million by the crop year beginning in August 1949, and increased to 7.0 million by 1957 and an estimated 9 million by 1958.

Cotton production goals for 1958 were set originally at 8 million bales. Although the Communists claim to have produced 15 million, this figure is heavily discounted in the United States estimate of 9 million. It is believed unrealistic to suppose that any major cotton-producing country could double output in one year, from a level that itself had called for rather great effort.

Under the "Great Leap Forward Program" adopted in the spring of 1958, cotton goals were raised to 16 million bales for 1958 and 24 million for 1959. The revised goals are obviously unrealistic and are probably explainable only in terms of their propaganda value.

Cotton produced in Red China has shown some improvement in quality, and staple length is now reported to average just over one inch, compared to an average of seven-eighths of an inch in 1950. Imports have ranged between 150,000 and 350,000 bales in recent years, the major suppliers being Egypt, Pakistan, Syria, and the Sudan. The quantities imported from Egypt, Syria, and the Sudan have tended to rise in recent years, partly reflecting Red China's drive for closer political and trade ties with these countries.

The importance attached to cotton production is readily apparent from the production goals established under the "Great Leap Forward Program." The steady expansion of cotton production indicates the extent to which resources have been committed to cotton; this expansion was interrupted only twice--in 1954 and again in 1956, when severe floods in the cotton-growing areas caused heavy crop damage. Food shortages have also been a factor in the inability of the Chinese Communists to meet their cotton production goals in some years. The Peking Government has itself suggested that the failure to meet raw cotton targets was due in part to the unauthorized production of food crops by individual farmers.

The collectivization and, in 1958, the communization of farms provided the means for greater government control over agricultural production. The government has attempted to teach improved cultural methods, such as deep plowing, pest control, and the use of fertilizer and better seed. Government programs have been undertaken to extend irrigation facilities and practices. In addition, large capital investments have been made by the state in chemical fertilizer plants. Increased irrigation and fertilization have both paid off in greater yields. The reorganization of the rural population into communes in the latter half of 1958 is said to have affected 90 percent of the country's peasant households. The communes are being provided with communal canteens, nurseries, laundries, and tailoring shops to insure that both men and women can devote most of their time to agricultural and small-scale industrial production, as well as such projects as irrigation and land reclamation. It is generally conceded that this step, if continued, could have far-reaching political, economic, and social consequences of both a short-run and long-range nature.

Prior to 1954, cotton was purchased from farmers by supply and marketing cooperatives. The period of sale extended from the autumn harvest until the following May or June and involved only about 75 percent of the total crop. Growers found it to their advantage to make use of their own cotton in the production of handspun yarns, handwoven cloth, and padded material for their own use and for sale at unregulated prices on the free market. Raw cotton as such was hoarded, since the Chinese peasant is said to believe that "keeping cotton is better than keeping money."

Under these conditions the state could not obtain prompt delivery of the necessary cotton for running the mills and in 1954 it established the Controlled Purchasing System whereby the farmer has little choice in the disposal of his cotton crop. It has been estimated that in one cotton-growing region, about 6 percent of the crop was left to the farmer for his own use, about 7 percent taken for taxes, and the remaining 87 percent purchased by the state at the official price. Collections became much easier under this system and after the organization of farms into collectives in 1955. Now that the commune system has become widespread, cotton collection difficulties should practically disappear.

COMMUNIST CHINA AS A COTTON TEXTILE PRODUCER

Functions of the Cotton Textile Industry

The cotton textile industry of Communist China appears to have four important functions: To meet domestic textile requirements, to provide funds for the industrial development of the country, to enable the acquisition of goods from other countries through the sale or barter of textile products, and to provide a material means for economic and political penetration of other countries. Its fundamental and primary purpose is to satisfy the personal and industrial textile needs of 650 million inhabitants, with a rising demand stemming from the dual pressures of an improving standard of living and of a population increasing at an annual rate of about 2 percent. Despite substantial increases in the production of cotton yarns and fabrics, supplies have been unable to meet consumer demands and have been stringently rationed. A major concern of the Communist planners is apparently to mitigate the chronic textile shortage.

The second role of the cotton textile industry is to provide revenue for the government treasury. In recent years, the textile industry has accounted for more than 25 percent of the value of industrial goods produced in Red China and its expansion has been an important factor in the economic development of the country. According to reports, the state-owned and controlled textile industry provided more than 38 percent of the industrial investment funds available under the First Five Year Plan; this was made possible by the profitability of the cotton textile business in Red China. Information released in 1956 indicated that the government could build a cotton mill of 100,000 spindles and 3,500 looms at an estimated cost of \$1.9 million and that the sum invested could be recovered in full after 12 or 13 months of operation. Thereafter, the mill would have an annual net return equivalent to the initial investment, and this would be contributed to the public treasury. In a Communist economy where the government owns raw materials, capital equipment, and the goods produced, the manufacturing process yields no "profit" as it does in a capitalist economy. The difference between cost and the sales price of goods manufactured is a bookkeeping margin called "savings" in Red China. It appears that the cotton textile industry has enjoyed and will continue to manage substantial "savings," since minimal raw cotton prices are fixed by the government; so far as nature permits, cotton supply is assured by the government's Controlled Purchase System; and an adequate domestic sales price for the finished goods is established by the state.

The following table shows the rapid growth in the value of industrial output and the state funds that have been committed to industrial expansion:

<u>Year</u>	<u>Gross value of industrial output</u>	<u>State investment in industrial construction</u>
	<i>Billion dollars¹</i>	<i>Billion dollars¹</i>
1952.....	11.0	0.6
1953.....	14.5	1.1
1954.....	16.8	1.5
1955.....	18.1	1.7
1956.....	23.8	2.6

¹ Converted at the rate of 2.46 yuan.

State Statistical Bureau, Statistical Appendix of 1956 Plan.

Two other important roles of the cotton textile industry have evolved within the past 4 years. The first is to provide the material means with which the Chinese Communists can obtain in Free World countries raw materials and machinery urgently needed for the industrial development of the country. Cotton products have been bartered for these commodities or have earned the foreign exchange with which to pay for them. The magnitude and success of the effort in this direction is more fully treated in the next major section of this report. Cotton textiles have also been used as a tool for economic and political penetration. They have served to gain access to Free World markets where Communist Chinese goods had not before been seen.

Industrial Facilities

It is exceedingly difficult to determine with any degree of accuracy the actual cotton textile production capacity in Communist China. Some clues are provided, however, by a study of the information available for the pre-World War II years and from reports from numerous sources, including the official reports of the Chinese Communists themselves. The cotton textile industry of China was well established by the time the country entered the two decades of conflict which began in the early 1930's. China had a corps of trained workers, adequate know-how and an indigenous raw material which formed the basis for the expansion that has taken place. China also manufactured textile machinery

in limited quantities, and the enlargement of capital equipment for the production of textile machinery was completed just before the Communist regime came into power in 1949.

According to the International Federation of Master Cotton Spinners' Association, there were 3.6 million spindles in China in 1929. The prewar peak of 5.1 million spindles was reached in 1937.

War with the Japanese brought a period of devastation which continued throughout World War II and by 1947 reduced the spindleage to 4.5 million. The Chinese Nationalist Government, on December 4, 1945, established a state-owned organization called the China Cotton Mill Construction Corporation to take over the Japanese-owned cotton mills. In February 1947, this corporation, which was subsequently perpetuated by the Communist regime, owned 39 percent of all spindles and 57 percent of all looms in the country. The number and location of all spindles and looms in China, including those owned by others as well as by the corporation, were reported by the corporation in 1947 (see table 1).

TABLE 1.--Cotton mill equipment in China, 1947

Area	Spindles		Looms	
	Distribution by area		Distribution by area	
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
Shanghai.....	2,158,624	48	25,918	39
Kiangsu Province.....	598,784	13	7,218	11
Hopeh Province.....	452,548	10	10,660	16
Shantung Province.....	387,132	9	8,066	12
Manchuria.....	396,080	9	8,692	13
Szechwan Province.....	157,740	4	1,620	2
Others.....	320,524	7	4,432	7
Total.....	4,471,432	100	66,606	100

Enji Arita, "Cotton Industry and Raw Cotton in Red China," Monthly Report of Japanese Cotton Spinning Industry, No. 88, April 1954.

In 1949 there were estimated to be somewhere between 4.5 million and 4.8 million spindles in China, compared with about 23.5 million in the United States. It was announced that under the First Five Year Plan, which ran from 1953 through 1957, spindleage expanded by 30 percent, bringing the total at the end of 1957 to about 7.5 million spindles. The Chinese Communists adopted a policy of utilizing the old equipment to full capacity in a three-shift operation. At the same time, the production of textile machinery was pushed. The building of new mills and the addition of new equipment was carried out as the machinery became available. During 1957 the Chinese Communists stated that they had the ability to produce 800,000 spindles and 20,000 looms annually. Later reports claimed that 1,200,000 or even 2,000,000 spindles could be produced. Reports now indicate that textile machinery output is being expanded on a crash basis, and that the Communist Chinese hope to produce 7.5 million spindles in the 2 years 1958 and 1959. This goal would seem unattainable; however, it is evident that Communist China's production of cotton textile equipment has been and will be further expanded, even though some of the machinery being produced is exported.

At the beginning of the First Five Year Plan, about 35 percent of the cotton spindles were privately owned. By the end of 1956, the remaining privately owned spindles were transferred to government or joint government-private ownership. To all intent and purpose, there is no private ownership of cotton mills in Communist China today; the socialization of the industry has been completed.

The New China News Agency reported that during the First Five Year Plan 44 new cotton spinning and weaving mills, 4 dyeing plants, 3 woolen textile mills, and 1 woolen knitwear mill were added. Mills equipped with modern machinery have been constructed in the important cotton-growing Provinces of Hupeh, Honan, Shensi, and Sinkiang. Mills were also built in the Provinces of Hunan, Kiangsi, Kiangsu, Liaoning, Anhwei, Chekiang, and Szechwan.

In 1958, new textile mills were to be built by 19 provincial and municipal governments. According to recent reports, the Communists hope to add 2 million cotton spindles during 1959. This figure seems quite unrealistic, but machinery producers have been urged to make every effort to expand their output, since cotton mill equipment would otherwise be insufficient to process the 1958 bumper cotton crop. Expansion of cotton mill construction continues under the Second Five Year Plan, mainly in the major cotton-producing areas.

The official planners in the Communist Chinese Government undoubtedly gear the expansion of cotton textile plants to the expansion of raw cotton production. In 1957, however, the New China News Agency reported "the development of cotton mills is reaching a point where they can absorb more than the cotton produced in the country." This may be the reason for scheduling the construction of a man-made fiber plant that will use sugarcane residue, and also for the increased use that cotton mills are reported to be making of "substitute fibers".

Raw Cotton Consumption

It had been a general practice for farmers to retain a substantial percentage of the raw cotton they produced for their own home use to make handspun yarns, handwoven cloth, and padded clothing. As they needed cash, the farmers released supplies of raw cotton in small quantities to nearby mills or private cotton merchants. In September 1954 a "Controlled Purchasing System" was inaugurated on a national basis by the Peking Government under which the state-owned purchasing agency acquired a very large percentage of all cotton grown at the official price. Farmers were allowed to retain 2.2 pounds per person and were given a special bonus of 1.8 yards of cotton cloth for each 110 pounds of raw cotton sold to the state.

The consumption of raw cotton in Communist China has expanded enormously since the close of World War II from an average of 2.9 million bales during the crop years 1945-48 to an estimated 7.8 million bales during the 1958 crop year.

There was a decrease in nonmill consumption from about 641,000 bales in the 1949 crop year to about 573,000 bales 6 years later, a decline from 26 percent of the total cotton crop to 9 percent. Data for the distribution of the crop between mill and nonmill consumption are not available for later years, but because of the Controlled Purchasing System it is probable that even less cotton is being used for hand spinning, padded clothing, etc.

During the entire postwar period China has been a net importer of raw cotton, but the volume imported has diminished from a high of 733,000 bales in the crop year 1947 to about 350,000 in the crop year 1957. In the crop year 1958 it is estimated that Red China will export 100,000 bales and import about 200,000 bales. In recent years cotton consumption in Red China has been directly dependent upon the success of the raw cotton crop; for instance, the disappointing 1956 crop caused cotton mills to operate at about 25 percent below capacity during 1957.

Yarn and Cloth Production

The production of yarn in China reached a pre-World War II peak of 979 million pounds in 1933. While in 1936 yarn production fell to 851 million pounds, cotton cloth output reached the prewar maximum of 1,036 million yards.

TABLE 2.--Cotton yarn and cloth: Estimated production and targets, Red China, 1949, 1952-58, and forecast for 1962

Year	Yarn		Cloth	
	Target	Production	Target	Production
	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million yards</i>	<i>Million yards</i>
1949.....	---	721	---	---
1952.....	---	1,447	---	4,700
1953.....	---	1,641	---	5,890
1954.....	---	1,839	---	6,260
1955.....	---	1,587	---	5,320
1956.....	2,080	2,092	5,468	6,990
1957.....	1,840	1,888	5,920	6,520
1958.....	2,060	2,664	---	6,933
1962 (forecast).....	3,200-3,600	---	9,400-10,400	---

International Review of Cotton and Allied Textile Industries, vol. 26, No. 101, March 1958, p. 25, and other published data.

Between 78 and 85 percent of Communist China's total cotton fabric production has been allocated for civilian use in recent years. Under the "Great Leap Forward Program," the announced but obviously unrealistic production targets for 1959 are 4,400 million pounds of cotton yarn and 10,368 million yards of cotton cloth. The production targets could be reached only with a tremendous increase in raw cotton and cotton textile output. Should they be achieved, however, there would be additional quantities of cotton textile that could easily be directed toward foreign markets.

Domestic Consumption

Production data by fabric type is not available, but as one might expect, production seems to be concentrated in basic fabrics, such as sheeting, shirting, and jean cloth. According to reports of travelers in Communist China, the entire adult population seemed to be clothed in light blue jean cloth. Judging by the materials that appeared in export markets, one would gain the impression that whereas unbleached fabrics were formerly the only types made, bleached, printed, and yarn-dyed goods have more recently become available. The goods are judged to be from poor to medium in quality, and somewhat inferior in finish to those produced elsewhere, but a good buy on the export market.

Clothing fabric has been in short supply for a number of years and as a consequence it has been severely rationed by the Peking Government through a controlled purchase and sales system. Distribution of cotton goods for private, industrial, and official use is undertaken by the government agencies. Although private wholesalers have been eliminated, retailers are permitted to sell to consumers, within the limits of their ration, the goods supplied by the government.

Based on estimates of population and quantities supplied for civilian needs, it appears that the average per capita cotton cloth ration was as follows in the years shown:

1953.....	7.9 yards
1954.....	7.5 yards
1955.....	7.4 yards
1956.....	9.6 yards

The average per capita ration for 1957 was originally established at 7.4 yards, but with the severe cutback in cotton fabric production resulting from the poor cotton crop of the previous year, the Peking Government in August reduced the ration to 5.8 yards. A report by the Ministry of Commerce to the State Council on April 11, 1957, gave this account of the adjustment:

"Cotton cloth is . . . supplied in fixed quantity . . . against cloth purchase tickets. The 1957 cloth purchase tickets are valid from September 1, 1956 to the end of August 1957. The tickets are divided into two periods . . . The 1957 cloth purchase tickets were issued in July 1956 when flood had not occurred and production of cotton and production of cotton yarn and cotton cloth were overestimated . . .

". . . the supply of cloth was not normal but extraordinarily great during 1956, the reason being that the Ministry of Commerce displayed certain defects in its work and failed to recognize the necessity of reserving some cotton cloth in a year of good harvest for supply to the people in a year of crop failure.

"Therefore we consider the only thing to do is to discount all the second period cloth tickets by 50 percent in town and country according to the 'make less summer clothing and insure winter clothing' policy . . ."

In explaining the cutback in cloth rations, Communist officials reminded the populace that the national consumption of cotton clothing had "increased substantially" over the years prior to the Communist regime. By February 1958 it was possible for the Chinese Communists to announce an increase in rations to about 6.6 yards per person, which seemingly confirmed their claims for increased raw cotton and cotton textile output. Late in 1958 the State Council ratified a Ministry of Commerce decision to increase the cotton cloth ration during 1959 to an average of 8.7 yards per person, a 32-percent increase over the 1958 level.

This delicate balance between cotton production and cloth ration indicates that the position of the Communist Chinese cotton textile economy is precarious, especially since the supply of domestic raw material is subject to severe fluctuations. The direct link made by Communist officials between the level of production and the domestic ration serves as an important incentive for increased output of raw cotton and cotton textiles.

COMMUNIST CHINA AS A COTTON TEXTILE EXPORTER

The Communist Chinese Trade Drive

Since the beginning of the First Five Year Plan, Communist China has exhibited a concerted effort to push its export trade with the non-Communist countries of Southeast Asia; more recently, this drive has been extended to Africa and Europe as well. Communist Chinese exports of all commodities to Free World countries are estimated to have averaged \$392.0 million annually in the 3-year period 1952-54, while in 1955-57 they had increased to an annual average of \$587.1 million. The objectives of this trade drive are both political and economic. The Communists undoubtedly have an active interest in furthering their ideology and entrenching themselves in neighboring Southeast Asian countries whose geographical areas and populations are extremely small in comparison to those of Communist China. From an economic standpoint, it is obviously necessary for Red China to earn foreign exchange. Only by this means can it hope to pay

for essential raw materials and machinery which it must import from outside the Communist Bloc to carry out some phases of the ambitious Second Five Year Plan. While cotton textiles have been an extremely important commodity in Communist China's foreign trade, during 1958 other items also were sold in Southeast Asia in unusually great quantities. These items included cement, chemical raw materials, iron bars, iron nails, machine tools, building materials, newsprint, and plate glass. A full range of consumer goods has also been reported, such as flashlights, bicycles, toys, eyeglasses, electrical appliances, ceramic ware, fresh and preserved foodstuffs, and leather goods.

The Communist Chinese trade drive is backed with a national policy of reciprocal trade and further strengthened by the state-managed trade organization. Export business in cotton products is conducted by the China National Sundries Export Corporation, a state-owned organization, with offices in Tientsin, Canton, and Shanghai. The Shanghai office operates under the name of Shanghai Textile Export Corporation. The Communists have shown ingenuity in the variety of methods they have used to further their objectives in the Southeast Asian countries. Formerly they were not actively pushing their export trade, but they have adopted more aggressive selling techniques within the past few years. They have participated widely in trade fairs in the region, their exhibits recently showing great improvement. They have sent trade delegations to numerous countries in Southeast Asia and elsewhere; they have used a trade promotion magazine to further their country's interests. It has been reported that in at least one country the embassy of the People's Republic of China increased its diplomatic staff noticeably and engaged them in commercial activities.

The recent signing of the Sino-Soviet trade treaty indicates that the Communist Chinese trade drive may be finding an expanded outlet in the Soviet Union. The Chinese have agreed to supply increased quantities of clothing, knitwear, and textiles, and for the first time, raw cotton. This may reduce the pressure of Communist Chinese exports on Southeast Asia.

Red China has made a significant effort in the field of market research and sales promotion. According to the Oriental Economist (September 1958), there is a "well directed and versatile sales activity" tied into a market research program. Market research involves every phase of the customers' needs, such as terms of sale, price, quality, and a study of the competition, distribution, finance, and purchasing power of the market. Field agencies are given wide power to cope with local conditions and to set prices. In some cases, prices of cotton textiles have been so low as not even to cover a reasonable raw cotton cost.

In 1957 and again in 1958, about \$192 million in foreign aid was made available by Red China. Although the major portion of it was allocated to Communist Bloc countries, in 1958 Cambodia received aid and grants amounting to \$22.4 million, Ceylon a 4-year loan of \$10.5 million at 2-1/2 percent interest, and Indonesia a 10-year loan of \$11.2 million at 2-1/2 percent interest. The Indonesian loan was used to finance 20,000 tons of rice and 72 million yards of cotton fabrics. One authoritative report indicated that Red China was subsidizing its exports to the extent of \$231 million annually.

For their economic penetration, the Chinese Communists find an unusual source of strength in Chinese who live overseas. Through diplomatic channels, and perhaps by other means, at least some of these overseas Chinese have been brought into the activities of Red China. The utilization of some "overseas Chinese" elements provides a possible bridgehead at the beginning of Red China's trade drive efforts in each country. The technique of using "overseas Chinese" to advantage is illustrated by the report that an influential Communist-oriented Chinese organization in Hong Kong has pushed the line that Hong Kong's prosperity lies not in developing its own industrial exports but in promoting Red China's export trade. Another example is the action of the Peking regime in calling upon those in Southeast Asian countries to boycott Japanese goods, after the abrupt break in trade relations between Red China and Japan in May 1958.

The Red Chinese have demonstrated a foreign trade policy that is sufficiently flexible to take advantage of any change in situations or in local conditions.

Cotton Textile Exports

Volume. --Prior to the Communist rise to power, Chinese cotton yarn, thread, and fabric were sold in relatively large volume in export markets, probably to some extent because of the influence of Japanese and British interests in the cotton textile industry. According to Chinese foreign trade statistics, the cotton piece goods exports of China, including Manchuria, totaled 290 million yards in 1935, 351 million yards in 1936, and 386 million yards in 1937. The total volume of Chinese exports of cotton yarn, fabric, and other cotton manufactures dropped sharply after 1948 and reached a low point in 1952. With the beginning of the First Five Year Plan in 1953, exports of cotton products expanded rapidly; the emphasis during this period shifted away from cotton yarn to cotton fabrics. It is estimated that in 1957 280 million yards were exported and that the volume may have risen to 450 million yards in 1958. Of total Communist Chinese cotton fabric production, about 5 percent was exported in 1957 and about 6-1/2 percent in 1958. Although there is no reason to believe that the Communists will reach their cotton cloth target of 10.4 billion yards in 1959, increased cotton fabric production is almost certain to mean increased cotton goods exports.

TABLE 3.--Cotton products: Estimated exports from Red China, 1938 and 1948-57

Year	Yarn	Fabrics	Other	Total
	<i>1,000 metric tons</i>	<i>1,000 metric tons</i>	<i>1,000 metric tons</i>	<i>1,000 metric tons</i>
1938.....	13.2	8.0	1.5	22.7
1948.....	19.2	26.0	1.5	46.7
1949.....	11.3	11.3	---	22.6
1950.....	14.8	4.8	---	19.6
1951.....	4.9	.5	---	5.4
1952.....	.8	.1	---	.9
1953 ¹	2.5	.1	---	2.6
1954.....	1.1	1.6	---	2.7
1955.....	1.6	13.0	---	14.6
1956.....	4.2	25.0	.5	29.7
1957.....	.5	19.0	.5	20.0

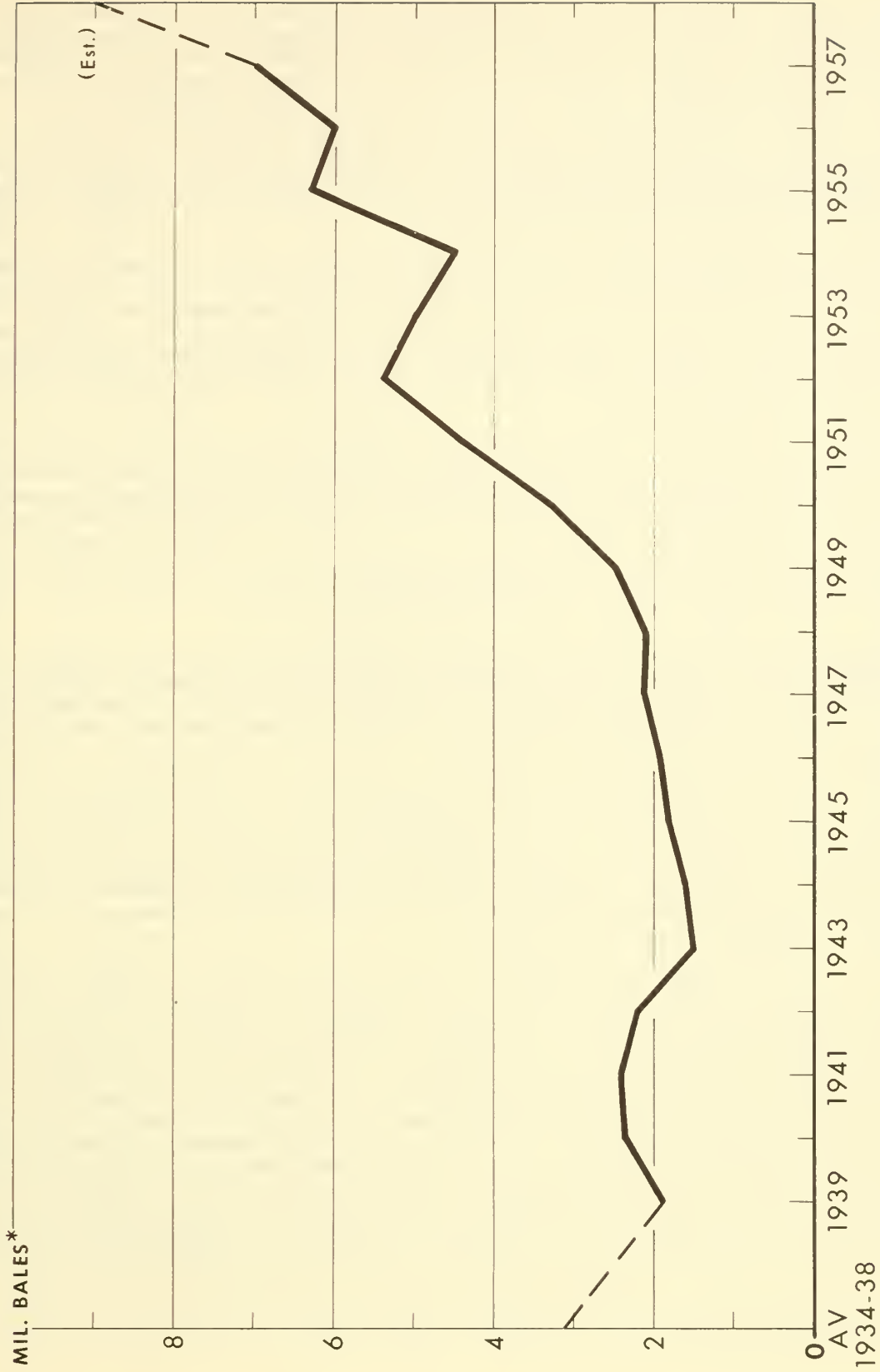
¹ Excluding Taiwan, 1953-57.

Food and Agriculture Organization of the United Nations: Monthly Bulletin of Agricultural Economics and Statistics, No. 25, March 1954; Reprint, vol. IV, No. 1, January 1955, December 1956 and 1957, and unpublished data.

Markets. --In 1952, the year before the inauguration of the First Five Year Plan, Red China's exports of cotton yarn and piece goods together totaled less than 1,000 tons. Trade was confined largely to Communist Bloc countries. Beginning in 1955, trade expanded to Free World countries, particularly those in Southeast Asia.

The Chinese Communists have published no data on the volume of their cotton textile exports by country, but significant information can be gleaned from a study of the trade data of importing countries. A comparison between the exports of a single country for several years is more reliable than a comparison of countries, because import classifications vary considerably country by country; still, a reasonable comparison between countries can be made of the import classification "cotton fabrics" or the nearest description thereto.

Cotton Production in Mainland China, Prewar and 1939-58



* 475 - POUND, 1934-36; 480 - POUND THEREAFTER

In the last few years, the major feature of cotton fabric exports to Southeast Asia has been their concentration in Indonesia, Malaya, and Hong Kong. It is estimated that in 1957 \$10.9 million worth of Communist Chinese cotton fabrics were imported into Indonesia, \$15.4 million into Hong Kong, and about \$4.6 million into Malaya--a total of \$40.9 million for the three countries, compared with a total of \$600,000 in 1953.

Communist China's cotton textiles are also beginning to appear in significant quantities in certain countries of Western Europe, particularly the United Kingdom and the Netherlands. Import statistics for these two countries and Sweden reveal the growing importance of Communist China as a supplier.

Nor has the African continent been unaffected by the Communist Chinese trade drive. Smuggling of Communist Chinese goods into French West Africa has been reported, and the possibility that the Red Chinese might invade their market with a wide variety of low-priced goods has worried the South African Board of Trade and Industries. Other African markets, such as the Sudan, have traded with Red China under bilateral agreements whereby they have been able to dispose of some of their agricultural commodities for cotton textiles and other goods.

The first reported effort to penetrate the Central American markets was in Nicaragua in January 1959, at which time advertisements appeared in a Nicaraguan newspaper, offering "bolts of Chinese cotton textiles, extensive variety, superior quality, new designs, fast colors." Many types of cotton and rayon textiles were offered, including the now famous perfumed poplin. It appeared to some observers that the Communist Chinese advertisements were part of an overall plan to sell Communist Bloc goods in Nicaragua, in view of the fact that Hungarian and Czechoslovakian trade agents also had been trying to sell in the Nicaraguan market during the latter part of 1958.

Trading Terms. --The seriousness of Red China's inroads into local markets is due in part to the nature of its competition and the motives behind its expanded trade. Conditions of trade laid down by the Chinese Communists seem to defy competition from countries or firms operating within limits dictated by the usual economic considerations.

In Thailand, Burma, Indonesia, and Malaya, Chinese traders initially offered to supply any type of cotton textiles 10 percent cheaper than other exporting countries. Quoted prices often range from 5 to 15 percent lower than those for comparable goods from Japan; such a price difference is a tremendous attraction in Southeast Asian countries, where the income levels are extremely low. Importers desiring to place repeat orders at such bargain prices, however, sometimes found that the Communist Chinese price had meanwhile been raised, thus narrowing the differential between goods from Red China and goods from other sources.

Even if sufficient data were available, a satisfactory comparison between manufacturing costs in Red China and those in other countries would be impossible because of the differences in the cost items included and the difficulties in determining actual costs in a state-controlled economy. It is reasonable to believe, however, that prices of goods for export are established without much regard for cost factors either as Westerners understand them or as they might be computed by the Chinese Communists. For example, some observers contend that freight to foreign ports frequently is not considered in the delivered price of goods to Southeast Asian markets, for the reason that Communist Chinese ships, after delivering shiploads of raw materials and machinery to Red China from Europe and Africa, pass through ports in that area regardless of cargo commitments. Furthermore, from the fragmentary data available on costs of producing cotton and cotton goods, it appears that the low prices quoted for cotton goods in world markets are actually below cost, even cost as determined by the Communists. Losses on the 5 or 6 percent of Red China's cotton goods that are sold in world markets at or below cost could undoubtedly be covered by the margin produced by the domestic sales of cotton goods; cotton textile prices, like many other facts of life in Red China, are controlled by government regulation.

A unique feature of Communist Chinese offers is a "falling clause," in which shippers agree to receive a reduced price at the time of delivery in the case of a downward price fluctuation in the world price of comparable textiles, with no increase in the event prices rise. Furthermore, Red China is willing to enter into barter agreements with importing countries providing for the exchange of textiles for local products such as raw cotton or rubber. Such arrangements have been attractive to some countries for balance-of-payment as well as trade considerations. Communist China also offers comparatively advantageous financing and settlement terms, including the extension of long-term credits at extremely low interest rates. In addition, the Bank of China opens letters of credit to permit the financing of import purchases and permits the opening of letters of credit after shipment of merchandise. Documents for trade acceptance terms are said to be widely offered; these in effect extend a time payment advantage to the importer, while at the same time they protect the Communist Chinese government agency with a definite obligation in negotiable form.

Added to these considerations is the fact that the Chinese Communists are now willing to produce to order instead of selling solely from stock as they did heretofore. Furthermore, quality and workmanship on cotton fabrics are better than buyers have reason to expect for the prices charged.

The price and trading arrangements outlined above have proved to be strong weapons in the economic warfare being waged by the Chinese Communists in their effort to expand their trade in cotton goods.

IMPLICATIONS

The consequences of the Communist Chinese trade drive in cotton textiles are manifold. It has affected other nations having a major interest in cotton textile exports; has deprived major raw cotton exporting countries of potential markets in countries that produce and export cotton textiles; and has in some instances seriously disrupted the economy of the importing countries. The United States has an important stake in the maintenance of its export markets for raw cotton and cotton textiles, in the preservation and expansion of the textile markets of its raw cotton customers, and in the economic stability of the smaller countries that lie to the south of Red China.

Until now Communist Chinese competition has been in cotton textiles; but there is a possibility that, should the Communist Government so choose, it could enlarge exports of raw cotton as well. If the fantastic production targets and claims for raw cotton were to be realized in the near future, the Chinese Communists would have ample resources to divert a small percentage of their raw cotton production to feed the cotton textile industries of the Southeast Asian countries, and, at the same time, increase the cotton cloth ration at home and expand exports of cotton textiles into world markets.

The economic achievements of the Chinese Communists since the beginning of the First Five Year Plan in 1953 have been impressive, and predictions of accomplishments that formerly would have seemed exorbitant seem now to be less unreasonable. The expansion of raw cotton production from the 1934-38 average of 3.1 million bales to an estimated 9.0 million bales in the 1958 crop year indicates the productive power that was utilized and lends some credibility to future targets. The Communists have superimposed the "Great Leap Forward Program" on top of the Second Five Year Plan, and the results in the next few years may be as incredible as earlier claims. Without doubt, Communist China has made important competitive gains with the trade drive in cotton textiles since 1955 and that of itself gives the Free World countries a new factor with which to deal at the present time.

Raw Cotton Exports of the United States

To date, the impact of Red China's trade drive on the exports of raw cotton by the United States has been indirect rather than direct. Of the countries affected by Red China's trade drive in textiles, the most important single market for United States cotton has been Japan, whose annual imports from the United States since the 1953 crop year have ranged between 678,000 and 1,588,000 bales. Other substantial cotton markets in this part of the world are Formosa, Hong Kong, India, and Korea. Indonesia, Pakistan, and the Philippines have taken smaller quantities of raw cotton, but in recent years have been consistent importers from the United States. Total exports from the United States to Asian countries have varied between 30 and 53 percent of total United States exports of raw cotton; this area, therefore, represents an important outlet for the No. 1 United States farm export product.

Japan, India, and Hong Kong have been the principal suppliers of cotton textiles to the countries of Southeast Asia; consequently, the upsurge of Red China as a source of cotton goods to these markets has affected the exports of these countries, and, in turn, United States exports of raw cotton to them, particularly to Japan. Japan's imports from all sources have shown a strong downward trend since 1956, dropping from 3.1 million bales to 2.3 million bales by 1958--a decline of 26 percent. In these 3 years, imports from the United States have shown an even greater reduction. Red China's export drive is not, of course, the sole reason for the decline in Japanese cotton imports. Other strong forces at work are (1) the development of textile industries in countries that are emerging from an agricultural economy, and that were former customers of Japan for large quantities of cotton goods, and (2) the competition in Japan itself from its man-made fiber industries. In 1958, the general textile recession also seriously affected demand for Japanese textiles both at home and abroad, and consequently Japan's imports of raw cotton.

Red China could, in years to come, become a formidable competitor as a supplier of raw cotton in world markets if its most ambitious production plans were to materialize and if the decision were made to export raw cotton in substantial quantities. The expansion in raw cotton production since 1954 has demonstrated the importance that the Chinese Communists attach to cotton. The original production target of 8,000,000 bales for 1958, revised to 16,560,000 bales under the Great Leap Forward Program, and even the earlier goal of 10,000,000 bales by 1962 announced in the Second Five Year Plan, give a clue to the intentions of the Peking Government. If the decision is made to export larger quantities of raw cotton, the centralized export sales organization that exists under the Communist system would enable its direction into export markets that best served the country's economic and political aims. It is likely that the 650 million persons living in Red China could consume all of the raw cotton that might be produced in the foreseeable future if given the opportunity to do so; however, this would not prevent the Peking Government from undertaking an export offensive with raw cotton. This possibility is apparent when one realizes that although severe rationing of textiles continues, the Chinese Communists have shown a willingness and an ability to export large quantities of cotton textiles.

Cotton Textile Exports of the United States

Shipments of cotton textiles from the United States to the countries of Southeast Asia have not loomed large against total United States exports of these products. In 1953, United States exports to Southeast Asian countries of all types of cotton-manufactured goods, including thread, fabrics, knit goods, and garments, were valued at \$32 million; since then, however, there has been a steady decline in United States cotton textile trade with these countries; by 1958, exports were valued at only \$9 million, a reduction of 71 percent. Most of the loss occurred in Indonesia and Thailand, where the Chinese Communists have made significant inroads. United States shipments of cotton goods to all destinations also declined between 1953 and 1958, but the reduction was much less severe than in the major Southeast Asian markets. Though United States exports of cotton goods to the major Southeast Asian markets represented about 12 percent of total cotton goods

exports, this ratio had dropped to 4 percent by 1958. Whether the United States can expect to maintain Southeast Asian export markets for cotton goods in the face of the convenient temptation of low-priced cotton textiles from Red China will depend upon a number of factors. The United States may find it more advantageous to promote exports of specialty goods rather than basic commodities such as sheeting, shirting, and denim. In order to meet the price competition of Red China for these low-end items, it may be necessary also to continue loans, grants, and other financial arrangements to the mass markets of Southeast Asia. On the other hand, the restrictive measures taken by some of the countries that have been targets of the Communist Chinese trade drive may serve to stem the flow of goods at "dumped" prices, thereby permitting the competitive sale of goods from the United States.

Other Cotton Textile Exporting Countries

Communist China's exports of cotton fabrics have had serious effects on the trade of other suppliers with the Southeast Asian region, particularly Japan and India. Japan's entire economy is dependent upon foreign trade, and cotton goods have been a most important commodity in the trade pattern. In the period 1954 to 1958, for instance, Japan exported over 40 percent of the cotton piece goods it produced, an annual average of 1.3 billion yards. In 1958, the principal cotton goods commodities represented 12 percent of the value of Japan's total exports.

TABLE 4.--Cotton fabrics: Production and exports, Japan, 1952-58

Year	Production	Exports			
		Total	Percent of production	To Asian countries	Percent of total
	<i>Million sq. yds.</i>	<i>Million sq. yds.</i>	<i>Percent</i>	<i>Million sq. yds.</i>	<i>Percent</i>
1952.....	2,158	762	35	535	70
1953.....	2,708	914	34	655	72
1954.....	3,051	1,278	42	836	65
1955.....	2,815	1,139	40	606	53
1956.....	3,300	1,262	38	¹ 765	61
1957.....	3,706	1,468	40	¹ 801	55
1958.....	3,040	1,245	41	633	51

¹ Including goods shipped under a triangular raw cotton-cotton textile processing arrangement with the United States as follows: Fiscal year 1956--Pakistan \$9,209,000; 1957--Burma \$9,000,000; Indonesia \$15,000,000.

Cotton Economics Research Institute and Japan Cotton Traders' Association, Japan Cotton Statistics and Related Data, 1957, Osaka, Japan; Japan, Ministry of Finance, Monthly Return of the Foreign Trade of Japan, published by Japan Tariff Association.

The Japanese have noted the changing complexion in Southeast Asian textile markets as a result of the Communist Chinese incursion. During the fall of 1958, the All Japan Cotton Spinners Association, a private industry group, sent three survey missions to make firsthand observations on the penetration of the Communist Chinese in these markets.¹

¹ The report of the missions is found in "Outline of Survey Report on Southeast Asian Markets," Monthly Report of the Japan Cotton Spinning Industry, No. 144, December 1958, p. 2.

Japanese cotton fabric exports followed an upward trend from 1952 through 1957, but fell back sharply in 1958 as a result of the general economic recession, limitations on imports of Japanese goods in various important markets, and the competition from Red China. Japanese exports of cotton goods to Asia have not kept pace with the rise in exports to all areas, but dropped from 70 percent of total cotton cloth exports in 1952 to 51 percent in 1958. The reversal of the general downtrend in this ratio that took place in 1956 and 1957 was the result of "triangular agreements," whereby Japan processed part of the raw cotton made available to Burma, Pakistan, and Indonesia under special United States Government programs and then shipped it to these countries as cotton textiles.

A major portion of the cotton fabric market in Southeast Asia is for low-end merchandise. To some extent, Japan had abandoned the export market for such goods, since Japanese producers found it to their advantage to make relatively more goods of higher quality and in the postwar years developed a full range of quality goods with fine yarns, special finishes, and fashionable patterns. Until the spring of 1958, Communist Chinese textiles did not cut into the bulk of Japan's business with some of the Southeast Asian countries. As a consequence, of special significance to the Japanese is the fact that since April 1958 the Chinese Communists have been offering goods of a quality that can directly compete with some of the fabrics sold by Japan.

In November 1958, the Japanese uncovered evidence of cotton fabric design pirating by the Chinese Communists. Patterns of some of the leading cotton textile manufacturers were found in Hong Kong, Thailand, Malaya, and Singapore; copied prints were also found in volume in Iraq, Iran, India, Pakistan, Ceylon, and Indonesia. At this time, there is no effective channel through which the Japanese can make complaints, in view of the fact that all trade between Japan and Communist China came to an abrupt halt in May 1958 when the Chinese Communists withdrew from trade relations with Japan.

In his New Year message the chairman of the All Japan Cotton Spinners Association called attention to industry's concern in these words: "Mainland China, as a cotton growing and exporting nation, is presenting an important factor that would possibly change the structure of the world cotton industry. Any direction of her cotton industrial policy deserves our most careful watch."

India, as a cotton textile exporter, has also felt the force of Communist Chinese competition in third markets. According to press reports out of Bombay, the Indian government is greatly concerned over Red China's growing challenge as a factor that might adversely influence India's general export promotion drive. It was felt that a large portion of the \$122 million decline in India's total exports during the first 6 months of 1958 was on account of Communist China's competition in cotton and other goods.

Competition in cotton textiles has been particularly severe for India in the Malayan market (Federation of Malaya and Singapore), where, in 1953, India supplied 22 percent and Red China only 2 percent of all imported textile manufactured goods. Each succeeding year Red China has increased its foothold in the Malayan market at the expense of India, so that in the first nine months of 1958 Red China supplied almost 9 percent and India only 10 percent of total textile imports. Communist Chinese price competition was most severe in the category of unbleached fabrics, a type of goods in which India has achieved considerable export volume. India also suffered reversals in Indonesia, Hong Kong, Thailand, and Ceylon, countries which are all traditional markets for Indian cotton goods. India's relative position as a supplier of cotton textiles to the United Kingdom deteriorated, particularly in 1958, partly as a result of competition from Hong Kong as well as from Red China.

Target Importing Countries

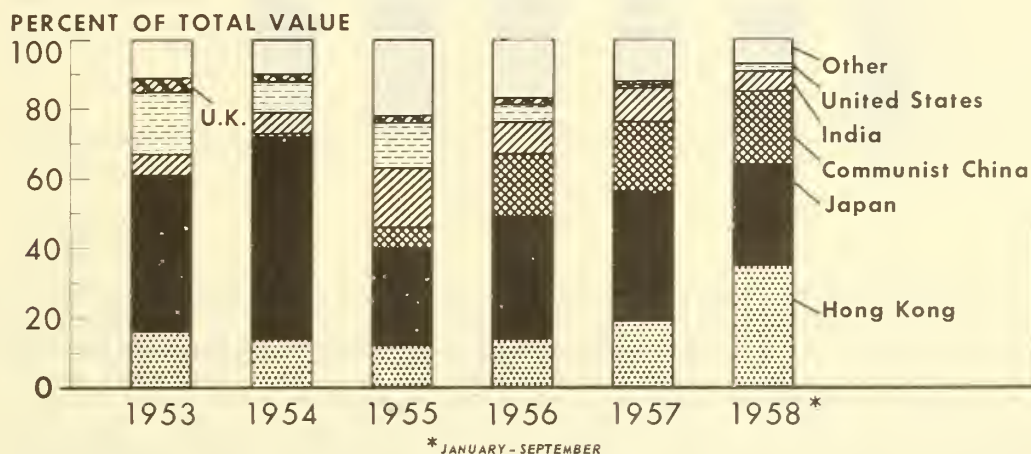
Countries on the receiving end of the large influx of Communist Chinese cotton textiles have found certain economic, commercial, and political disadvantages in this new situation. Although there is no denying that consumers in these countries have generally

benefited from the low prices of Communist Chinese goods, government officials have recognized that this might well be a temporary and illusory advantage to the populace.

On the commercial side, private traders in Free World countries, particularly Southeast Asia, have experienced difficulty in dealing with the bureaucratic techniques employed by the state trading organization and have found that the presence or threat of large quantities of Communist Chinese goods was disrupting to local market conditions. In some cases, they deferred buying the relatively more expensive goods from their traditional sources because the Communists could easily flood the market and cause business failure. The Communist practice of "closed door" trading through one importer and/or wholesaler is contrary to the usual method of doing business in Free World countries. When purchase agreements were made, buyers found that they were forced to take the goods when offered, and that there was, in fact, little room for them to establish delivery schedules which best suited their purposes. The erratic nature of the supply also placed buyers in a difficult inventory position. Once trade was established at low prices and competitors driven off, the Communists have been known to hike prices.

In some countries of Southeast Asia the nationalistic spirit of the overseas Chinese, which emerged after the development of the Communist Chinese trade drive, has been a source of concern to government officials who, at the same time, have been struggling with problems of newly independent nations. Local officials have in some countries been wary of the offers of grants and loans which would tie their economies too closely to that of Red China.

INDONESIA: Imports of cotton fabrics from major sources



USDA

FAS-NEG. 1850

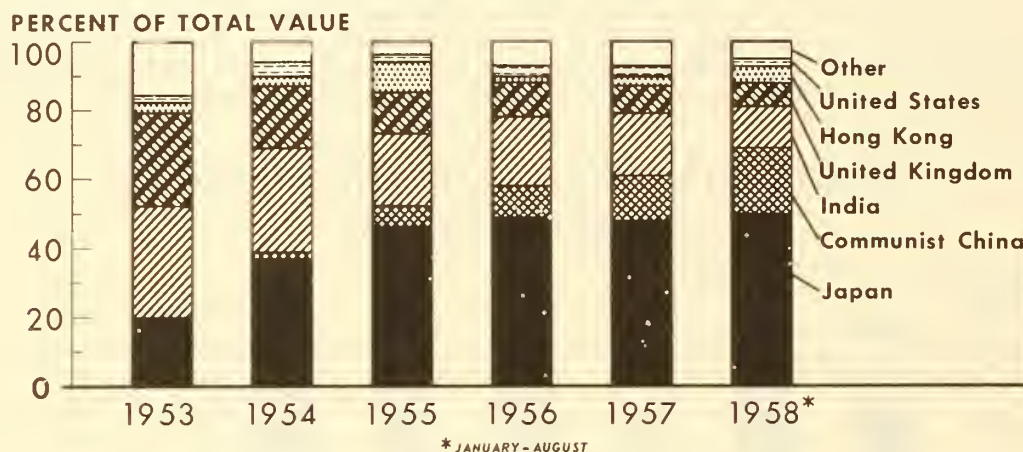
Indonesia has long been by far the largest single market for imported cotton goods. In the 3 years 1937-39, Indonesia imported an average of 636 million yards annually, of which Japan supplied 64 percent and China 1 percent. Since the close of World War II and the Indonesian independence which followed a few years later, Indonesia has struggled with balance of payments difficulties and has found it necessary to reduce imports, particularly of cotton piece goods. From 1954 to 1957 Indonesian imports averaged 498 million yards annually, of which Japan supplied 39 percent and Red China 14 percent.

Malaya's textile imports from Red China have moved up from less than 1 percent in 1953 to about 8 percent in the first 8 months of 1958. The Government of Singapore and the Federation of Malaya, worried over the advance of Communist Chinese textiles, placed them under specific import license in October 1958. This action was taken to protect the young weaving industry of Malaya pending the passage of antidumping legislation.

According to reports, the weaving mill in Johore, employing about 400 workers, was able to compete with legitimate imports of textiles from other countries but not with "dumped" textiles from Red China.

Later that month the Federation of Malaya and the Singapore Government suspended import licensing for certain types of cotton textiles of Chinese origin. The branch Bank of China in Kuala Lumpur was required to close under the terms of Malayan banking legislation passed early in 1959. These measures have caused irritation among Communist Chinese officials, who retaliated with an embargo on trade with the Federation of Malaya and Singapore. Singapore, dependent upon entrepôt trade, having no industrial interest at stake, and with a population that was 85 percent Chinese and eager to obtain Chinese-type foods from the mainland, lifted the ban in February 1959. The Federation of Malaya had not passed antidumping legislation and therefore continued the embargo as of March 1959.

MALAYA: Imports of cotton fabrics from major sources



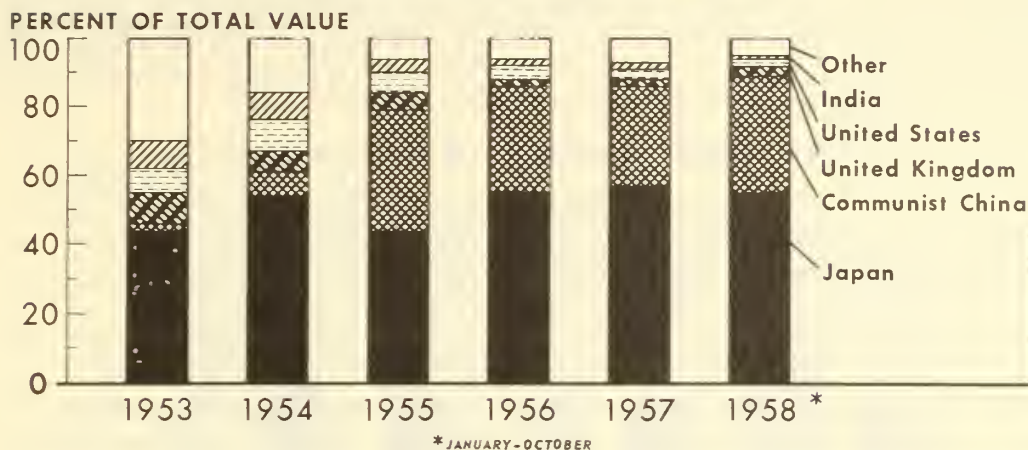
USDA

FAS-NEG. 1849

Only 2 percent of Hong Kong's imports of cotton piece goods came from Red China in 1953, but in the intervening years Red China moved up rapidly as a supplier and by 1958 accounted for over 30 percent of Hong Kong's total cotton fabric imports. Since Hong Kong is a free port, it is likely that a substantial quantity of imported goods moves from there into export channels without further processing.

In North Borneo, a relatively small market, Red China's share of the supply progressed from about 5 percent in 1955 to 18 percent in the next 2 years and about 22 percent in the first 9 months of 1958.

HONG KONG: Imports of cotton fabrics from major sources



USDA

FAS-NEG. 1852

The situation in Burma is somewhat complicated, but also reveals the inroads made by Red China as a supplier of cotton textiles. According to the Burmese Central Statistical and Economics Department's Bulletin of Import Trade, textile yarn, fabric, and clothing imports from Red China in recent years have been as follows:

	Textile yarn and fabrics	Clothing
	1,000 dollars	1,000 dollars
1953.....	177	1
1954.....	150	4
1955.....	1,382	3
1956.....	15,902	59
1957 (Jan. -May)	2,361	9

Later Burmese customs data are not available.

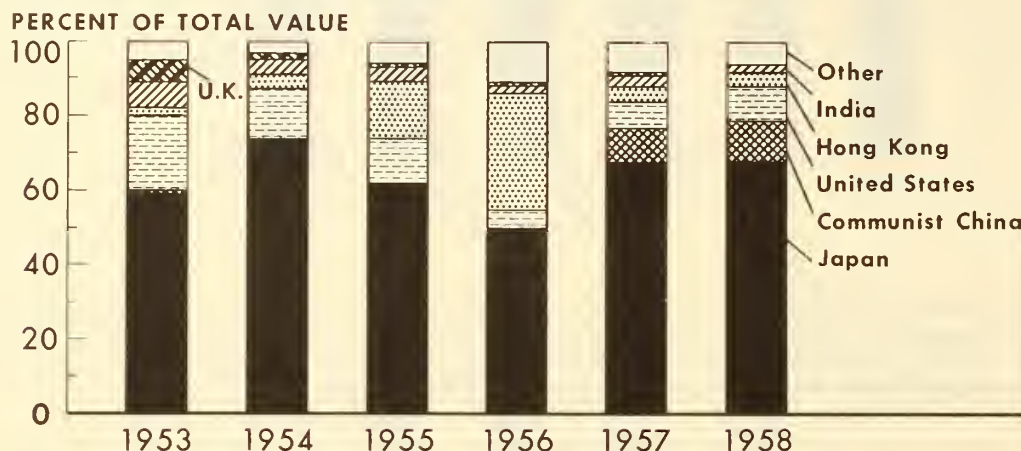
The internal difficulties of inflation, high living costs, low purchasing power, and short supply of consumer goods have made cheap Communist Chinese goods attractive to Burmese consumers. The heavy imports of Communist Chinese goods in 1956 were due to some extent to the "unfavorable" balance of trade accumulated by Red China because of Red China's heavy buying of rice from Burma--rice which was later traded for other raw materials from third markets.

Red China supplied almost 28 percent of all cotton textiles imported into Burma in 1956, but dropped to a minor supplying position in the following 2 years. The abrupt decline in Communist Chinese exports of cotton goods to Burma results from cotton textile imports under a triangular raw cotton and cotton textile processing arrangement with the United States provided under Public Law 480.

Thailand imported no cotton textiles from Red China in 1955 and 1956, but during 1957 almost 9 percent and during the first 6 months of 1958 over 11 percent came from that source. The Communist Chinese trade drive in Thailand seemed to be headed for substantial success until the merchants, as well as the Government of Thailand, began to realize the difficulties involved in the situation. The revolutionary party that

established itself in October 1958 published the following announcement: "Considering that most imports from Communist China are luxury and unnecessary goods, that most of the time they are brought in by smuggling which is extremely difficult to control, and that they tip the balance of trade at the expense of Thailand, the revolutionary party has thought fit to impose a ban on all goods produced by or originating from Communist China." This pronouncement was made in January 1959 and continued in effect as this report went to press.

THAILAND: Imports of cotton fabrics from major sources



USDA

FAS-NEG. 1853

Cambodian import statistics show no cotton textiles from Red China in 1956, but it is thought that some may have entered via Hong Kong. In April 1957, the Government of Cambodia announced that the first shipment of goods under the Communist Chinese aid program included 5 million yards of cotton goods, as well as cement and raw silk. The goods were to be distributed to local merchants on the basis of bids allowing for the "smallest margin of profit." Communist Chinese shipments in 1958 were almost 25 percent of Cambodia's total cotton piece goods imports.

Through the end of 1957, Red China had exported very few cotton fabrics to Ceylon. A loan of \$10.5 million from Red China and a Communist Chinese trade fair held in March 1958 stimulated interest, however, and in the first 10 months of the year over 4 percent of Ceylonese cotton cloth imports came from Red China. In mid-1958, the Chinese Communists offered credit to build a textile weaving mill with a 10-million-yard annual capacity for the production of sheeting, poplin, drill, shirting, and curtain netting. Work on this project, to be equipped with Communist Chinese textile machinery, is going forward, and the mill is scheduled for production by 1960.

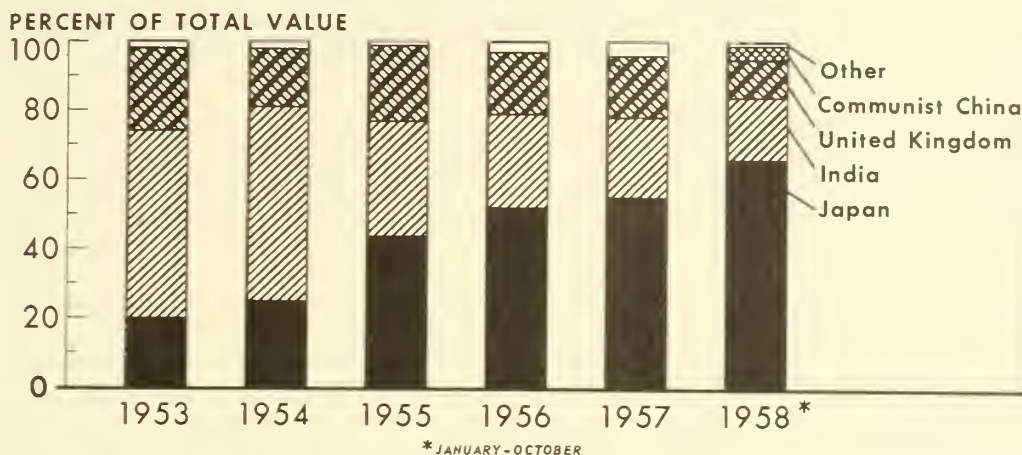
The Straits Times (Singapore), in January 1959, pointed to the Communist Chinese-Ceylonese trade relationship as a good illustration of the inroads that Red China was making in the traditional pattern of trade in Southeast Asia:

"Even as late as a year ago, there were complaints in Ceylon that China was refusing to settle her sterling debt, and was insisting that Ceylon should buy goods which it did not want. Nevertheless a new agreement was reached in Peking which continued the special arrangements for rubber, although it was made clear that times were changing.

"In the past 12 months the change has been astonishing. China has practically doubled the value of her exports to Ceylon, and halved her imports, selling to Ceylon only a little less than Japan. . . .

"This year Ceylon is likely to find the Burmese Government a little more accommodating, and the price of Burmese rice a little cheaper. But will Ceylon be able to make the switch? Peking is in a new position, and knowing that Ceylon cannot find an alternative market for her rubber may take advantage of it."

CEYLON: Imports of cotton fabrics from major sources



USDA

FAS-NEG. 1851

The power of a state-controlled export activity, which operates beyond the scope of commercial and economic considerations, is thus demonstrated. Countries having their economic base in one major agricultural product are particularly vulnerable to the lure of a ready and easy market. Some are finding, however, that the price of this solution to their problem of crop disposal is dangerously high.

Even some countries of Western Europe have been adversely affected by the inflow of Communist Chinese products. Although Communist Chinese cotton fabrics were competing with those from India and Hong Kong, which entered the United Kingdom under the Empire Preference rate, they gained a foothold in Britain beginning in 1955. In January 1958, however, the United Kingdom imposed quota restrictions against Communist Chinese yarn and piece goods of cotton, linen, and man-made fibers, which held the volume of imports to the 1957 level. In August of that year, the restrictions were extended to other textile manufactured goods, as well. Imports from Red China dropped off sharply after the initial action. The data shown in table 4 do not, however, take into account Communist Chinese imports into the United Kingdom for processing and re-export, which totaled 4.2 million square yards in 1955, 7.6 million square yards in 1956, 15.4 million square yards in 1957, and in the first 9 months of 1958 a total of 8.8 million square yards, not including 12.4 million square yards entered in bond and held in warehouses during the first quarter.

Reductions in output have occurred in the processing as well as the spinning and weaving segments of the cotton industry in Britain, but the decline has been greater in spinning and weaving than in processing, owing at least in part to the volume of grey goods imported for processing and reexport.

There is some apprehension on the part of members of the Treaty of Rome¹ that Communist Chinese cotton grey goods imported into any one of the Common Market countries might, after processing, flow duty-free into other Common Market countries and qualify, because of "value added," as goods of Common Market origin. It is expected that some mutually satisfactory arrangement will be agreed upon by the Common Market countries to control the volume of "abnormal competition" from non-European sources.

¹ Belgium, France, Germany, Italy, Luxembourg, the Netherlands.

TABLE 5.--Cotton fabrics: Imports into specified countries, 1953-58

Country and year	Total imports	Percentage supplied by--					
		Red China	Japan	Hong Kong	India	United Kingdom	Other
	<i>1,000 pounds</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Canada:							
1953.....	48,444	---	1	(¹)	6	7	86
1954.....	40,926	---	1	1	8	6	84
1955.....	47,593	---	5	---	10	5	80
1956.....	54,329	---	7	(¹)	10	4	79
1957.....	58,921	(¹)	7	(¹)	10	5	78
1958 ²	49,689	(¹)	8	1	8	3	80
Netherlands:							
1953.....	20,591	---	19	---	---	10	71
1954.....	22,522	---	23	---	---	2	75
1955.....	27,619	---	43	---	---	1	56
1956.....	27,734	1	31	---	---	1	67
1957.....	38,880	3	34	---	---	1	62
1958:							
1st quarter.....	9,206	4	30	---	---	1	65
2d quarter.....	9,627	8	28	---	---	1	63
3d quarter.....	7,551	27	12	---	---	2	59
Sweden:							
1953.....	19,332	---	14	(¹)	1	10	75
1954.....	18,415	---	17	---	(¹)	11	72
1955.....	19,881	(¹)	17	---	(¹)	9	74
1956.....	19,240	1	18	---	1	8	72
1957.....	20,972	2	24	(¹)	1	7	66
United Kingdom:	<i>Million sq. yds.</i>						
1953.....	9,864	---	39	2	17	---	42
1954.....	26,736	---	20	7	50	---	23
1955.....	29,960	2	21	17	46	---	14
1956.....	30,628	3	10	19	43	---	25
1957.....	41,628	7	14	18	45	---	16
1958:							
1st quarter.....	116.54	24	10	21	33	---	12
2d quarter.....	85.20	4	17	32	33	---	14
3d quarter.....	74.89	3	9	37	36	---	15

¹ Nominal.² January-October.

For Canada, Trade of Canada, Imports; for Netherlands and United Kingdom, The Cotton Board, Quarterly Statistical Review, December 1958 and 1957; for Sweden, Handel, Del. II.

In view of the extremely low prices of Communist Chinese textiles, which began to enter their market in volume in April 1958, the Swiss textile industry has raised the issue of dumping and has asked the Swiss Government to take special measures against this "unfair" competition.

An effort was exerted by the Chinese Communists in September 1958 to sell their goods in the South African market, particularly cotton textiles, at prices in some cases 20 percent below those of goods offered from other sources. The Union was considering Parliamentary action to put a curb on "dumped" imports, which would seriously affect the growing textile industry of South Africa and their traditional trade relations with the United Kingdom. Presumably, the usual means of computing "current domestic value" for purposes of assessing tariff rates would not prevail for Communist Chinese cotton textiles, since it would be virtually impossible to determine domestic value. Dumping duty applied to Communist Chinese imports would result in the import of cheap goods at high prices. The Rand Daily Mail of Johannesburg reported that only token orders had been placed as of August 1958, but that they had the effect of disrupting the always sensitive textile trade.

French textile circles were reportedly concerned over the proportion of Communist Chinese textiles sold in their dependent overseas territories. These sales in 1958 began to cut into the sales of French manufacturers. According to reports from France, some Communist Chinese textiles were being offered to Asian and African markets as goods originating elsewhere.

The United States has been for a number of years the largest supplier of cotton textiles to Canada, but since 1957 low-priced Communist Chinese goods have entered the Canadian market in increasing quantities. The Department of National Revenue assessed antidumping duties on importations of Communist Chinese cotton textiles, which had been selling at about one-third the amount charged by America and British exporters and at about one-half the Japanese price. In commenting upon the situation the Canadian prime minister stated that "the 'terrifying' Red trade offensive is a threat to Canadian jobs, security and survival. We cannot stand against them, unless 'tremendous changes' are brought about."

